

Highlights

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Influenced by abundant stockpiles, ample wellhead production, and continuing lower-than-expected demand, international crude oil prices largely fell during January, 1998. At the start of the month, the Organization of Petroleum Exporting Countries (OPEC) initiated its new crude oil production quotas, which are approximately 10 percent higher than the previous production allocations for most member countries. With global supply outstripping demand since the second quarter of 1997 (due in large part to the renewed flow of Iraqi crude oil and steady yields from other non-OPEC oil producing regions), the higher output from OPEC sharpened the effects of an over-supplied market on sagging prices. Adding further pressure on prices, the United Nations approved more sales contracts for Iraqi crude oil. Continued mild winter temperatures across the Northern Hemisphere and robust supplies of finished products in major world markets also influenced the downward trend in crude oil prices.

Despite these fundamental market conditions, prices for many key crude oil streams experienced abrupt increases during the final week of January as a result of rising tensions associated with Iraq's most recent refusal to fully cooperate with the United Nations weapons inspection program. The United Nations "oil-for-food" deal is contingent upon the unconditional acceptance of, and compliance with the terms of the Persian Gulf War cease-fire agreement, which includes the implementation of a weapons inspection program. The source of the crisis was the Iraqi government's expulsion of U.S. members of

the inspections team at mid-month. While the threat of military action against Iraq by the United States spurred prices across world oil markets, the apparent lack of enthusiasm by other nations for a military strike combined with a well-supplied market discouraged extraordinary increases. Many benchmark prices during this period were on par with, or below, prices seen during December.

In addition to the political events at the end of January, prices for crude oil and finished products in the United States were influenced by the same essential factors that have driven market activity during the past several months: abundant supplies, solid production rates, and uneven demand. These ongoing conditions were felt in all regional markets, and offset the effects of falling refinery utilization and conjecture about a possibly heavy slate of seasonal refinery turnarounds. Data reflecting demand for gasoline and distillate fuels indicate decreases during January, while stocks remained at robust levels. Despite these

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices

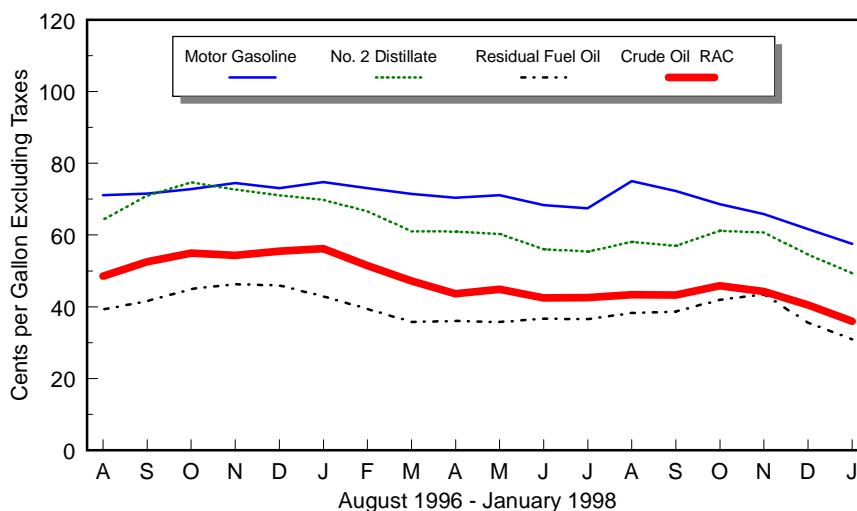


Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	January 1998		December 1997		January 1997		January 1998		December 1997		January 1997	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	73.3	59.8	77.8	66.0	86.6	54.8	57.6	279.7	61.7	298.4	74.8	275.8
Conventional	69.1	34.7	72.9	37.7	85.3	31.0	53.3	185.5	57.1	197.0	72.7	180.9
Regular	65.3	24.0	68.9	26.4	81.7	22.0	51.2	143.3	55.1	150.8	70.7	140.0
Midgrade	73.8	5.7	78.5	6.0	90.8	4.9	57.5	14.6	61.3	16.1	76.7	15.0
Premium	82.2	5.0	86.4	5.3	98.6	4.1	61.8	27.6	65.3	30.1	81.5	25.9
Oxygenated	82.2	4.2	87.3	4.6	93.1	5.5	65.4	10.4	70.8	11.2	81.6	10.9
Regular	78.3	3.0	83.4	3.4	89.2	4.1	63.6	7.9	68.8	8.6	79.7	8.3
Midgrade	89.1	0.7	94.7	0.7	100.2	0.9	68.0	1.3	74.0	1.3	84.1	1.1
Premium	98.7	0.4	104.1	0.5	108.9	0.6	74.8	1.2	80.5	1.3	91.0	1.4
Reformulated	78.6	20.9	83.6	23.7	86.8	18.2	66.3	83.8	70.6	90.3	78.5	83.9
Regular	74.0	13.8	79.1	15.9	82.1	11.9	62.7	56.5	67.0	60.2	75.2	56.3
Midgrade	83.6	3.6	89.1	4.0	91.6	3.3	70.8	10.0	75.5	10.9	81.0	10.8
Premium	91.1	3.6	96.6	3.8	100.5	3.0	75.5	17.3	79.0	19.2	87.9	16.8
Aviation Gasoline	104.3	0.1	107.7	0.1	113.7	0.1	96.1	0.4	99.8	0.5	109.0	0.4
Kerosene-Type Jet Fuel	52.2	47.8	56.3	50.2	74.4	45.6	52.9	11.5	55.6	14.3	73.5	11.1
Propane (Consumer Grade)	48.3	4.6	51.8	4.4	86.6	3.2	35.5	38.5	37.5	42.5	59.9	44.6
Kerosene	72.3	0.3	75.1	0.3	88.7	0.5	52.8	4.4	57.8	4.9	77.7	5.3
No. 1 Distillate	57.8	0.7	63.8	0.6	77.5	0.6	57.2	3.2	64.1	3.2	78.9	4.4
No. 2 Distillate	54.8	23.7	60.1	24.4	73.3	25.4	49.4	119.2	54.6	125.6	69.8	127.8
No. 2 Fuel Oil	55.1	3.4	59.7	3.5	75.5	3.5	48.9	34.5	53.4	35.4	69.8	46.3
No. 2 Diesel Fuel	54.8	20.3	60.1	20.9	73.0	21.8	49.6	84.7	55.0	90.1	69.9	81.6
Low Sulfur	56.7	12.9	61.8	13.4	74.8	14.1	50.0	68.4	55.3	75.3	70.1	64.4
High Sulfur	51.5	7.4	57.1	7.5	69.6	7.7	48.1	16.3	53.6	14.8	68.9	17.2
No. 4 Fuel^a	50.9	0.4	56.1	0.4	65.8	0.6	46.3	0.2	49.0	0.3	63.8	0.5
Residual Fuel Oil	35.3	15.5	40.2	17.5	49.2	15.0	31.0	13.5	35.6	12.9	42.9	13.8
Sulfur Content not > 1 %	44.7	3.6	48.5	3.9	58.7	3.6	35.2	4.8	38.7	6.0	46.2	7.3
Sulfur Content > 1 %	32.5	11.9	37.8	13.6	46.3	11.4	28.7	8.7	32.8	6.9	39.2	6.5

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

conditions, renewed tensions with Iraq drove prices up, especially during the final week of the month. Nonetheless, after each episode in this political stand-off, prices returned to their downward mode in response to both fundamental and technical market influences. Aside from volatile prices for crude oil and refined products, U.S. refiners generally enjoyed solid refining margins, unlike their counterparts in other world regions.

January market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

The daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma, reflected conflicting market influences during January. While U.S. stockpiles of crude oil grew and refinery inputs fell, pressure from the political arena periodically offset the effects of these factors. Opening the month at \$17.65 per barrel, the price generally continued on a declining path, despite some short-lived counter movements. After hitting the low of \$15.65 per barrel on January 23, the price shot upwards in response to the situation in Iraq, finally reaching the high of \$17.93 per barrel on January 29. Closing the month at

\$17.21 per barrel, the price was 44 cents per barrel lower than where it started January.

- As was the case in December, monthly average crude oil prices for January underwent significant decreases in all categories of sales. The average domestic crude oil first purchase price dropped \$1.58 (10.5 percent), to \$13.48 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil fell \$1.56 (10.9 percent), to \$12.75 per barrel. The average landed cost of foreign crude oil dropped \$1.63 (10.3 percent), to \$14.19 per barrel.
- The monthly average refiner acquisition costs for domestic crude oil decreased \$2.05 (11.4 percent), to \$15.87 per barrel. The average cost of imported crude oil to U.S. refiners fell \$1.64 (10.1 percent), to \$14.52 per barrel. The composite refiner acquisition cost of crude oil dropped \$1.89 (11.1 percent), to \$15.11 per barrel.

Petroleum Products

Motor Gasoline

At New York Harbor, the daily spot price for unleaded regular gasoline followed a volatile course during January, buffeted by issues ranging from climbing stock levels to tensions in the Middle East. Opening at 49.3 cents per gallon, the price continued on a variable course for the next several weeks. After dropping to the low of 45.0 cents per gallon on January 22, the price rose sharply in response to the discord between the U.S. and Iraq. After reaching the high of 50.2 cents per gallon on January 29, the price retreated to 47.9 cents per gallon on the final day of the month, approximately 1.5 cents lower than where it started.

- Once again monthly average gasoline prices fell in all categories of sales. The average price for retail sales of motor gasoline by refiners during January decreased 4.5 cents, to 73.3 cents per gallon while the average wholesale price declined 4.1 cents to 57.6 cents per gallon. Including data reported by a sample of motor gasoline marketers, the national average retail price at company-operated retail outlets subsided 4.2 cents to 72.4 cents per gallon. The average wholesale price fell 4.0 cents, to 58.0 cents per gallon. The average dealer tank wagon

(DTW) price dropped 4.3 cents to 66.3 cents per gallon. The average rack price decreased 4.2 cents to 54.4 cents per gallon. The average bulk sales price dropped 2.8 cents, to 50.9 cents per gallon. The margin between reformulated and conventional gasoline prices shrank, dropping to 7.2 cents at retail, and 11.1 cents at wholesale. The range between conventional and oxygenated gasoline prices decreased to 11.2 cents at retail and 9.8 cents at wholesale.

- In contrast to December's trend, sales of finished motor gasoline by refiners fell in January. Total sales decreased 24.9 million gallons per day (6.8 percent), to an average of 339.5 million gallons per day. Retail sales dropped 6.2 million gallons per day (9.4 percent), while wholesales fell 18.7 million gallons per day (6.3 percent). Rack sales made up 59.5 percent of total wholesales, while DTW and bulk sales defined 25.6 percent and 14.9 percent, respectively. Reformulated gasoline (RFG) constituted 30.8 percent of total motor gasoline sales, while oxygenated gasoline made up 4.3 percent of sales.

No. 2 Distillate

During January, the daily spot price for No. 2 heating oil at New York Harbor continued under pressure from plentiful stocks and mild winter temperatures. After opening at 49.0 cents per gallon, the price dropped rapidly during the next several days. Generally losing ground during the next few weeks, it reached its low of 44.0 cents per gallon on January 23. Like other products, the price was affected by the turmoil involving Iraq during the final week of the month. After rising to the high of 49.2 cents per gallon on January 29, the price closed at 47.9 cents per gallon, 1.1 cents lower than where it began.

- Prices for No. 2 distillate fell in all categories during January, reflecting the relatively mild weather thus far in the 1997/98 winter season. The national average residential price dropped 1.2 cents to 92.6 cents per gallon, while the average wholesale price descended 5.0 cents, to 51.0 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets dropped 4.6 cents, while the average wholesale price tumbled 5.4 cents. The margins between low- and high-sulfur diesel fuel prices increased to 2.8 cents at retail and 2.2 cents at wholesale.

- January sales of No. 2 distillate fell, reflecting decreased demand. Total sales declined 7.0 million gallons per day (4.7 percent), to 142.9 million gallons per day. Sales of No. 2 fuel oil dropped 1.0 million gallons per day (2.6 percent) while sales of No. 2 diesel fuel decreased 6.0 million gallons per day (5.4 percent). Low-sulfur diesel fuel sales constituted 77.4 percent of all refiner diesel fuel sales, and 56.9 percent of all refiner No. 2 distillate sales.
- Sales of residual fuel oil by refiners generally fell during January. Total sales dropped 1.4 million gallons per day (4.6 percent), to 29.0 million gallons per day. Low-sulfur residual fuel sales decreased 1.5 million gallons per day (15.2 percent), while high-sulfur residual fuel oil increased 100,000 gallons per day (0.5 percent).

Residual Fuel Oil

- January monthly average residual fuel oil prices fell in all categories of sales. Refiner prices for low-sulfur residual fuel declined 3.8 cents to 44.7 cents per gallon at retail and 3.5 cents to 35.2 cents per gallon at wholesale. Refiner high-sulfur residual fuel prices tumbled 5.3 cents to 32.5 cents per gallon at retail and 4.1 cents to 28.7 cents per gallon at wholesale. Including data reported by the sample of residual fuel oil marketers, the average low-sulfur price sank 4.3 cents to 44.0 cents per gallon at retail and 3.7 cents to 36.7 cents per gallon at wholesale. The average price for high-sulfur residual fuel oil fell 5.5 cents to 32.9 cents per gallon at retail, and 5.1 cents to 29.8 cents per gallon at wholesale.
- Retail and wholesale prices for other products fell solidly in January. Refiner propane prices subsided 3.5 cent per gallon at retail, and 2.0 cents per gallon at wholesale. Including the sample of propane marketers, the average residential propane price fell 1.1 cents per gallon, while the average end-user price decreased 1.5 cents. The average wholesale propane price dropped 2.1 cents per gallon. Retail and wholesale prices decreased for aviation gasoline, No. 1 distillate, No. 4 distillate, kerosene, and kerosene-type jet fuel.
- Refiner volumes of sales for products included under this heading were mixed. Sales of propane rose at retail but fell at wholesale. No. 1 distillate sales increased slightly at both levels, while the remaining products registered decreased sales in both retail and wholesale.

Other Products